

ARTICLE 5

# Devolution Beyond Declarations: A Critical Review of Functional Transfer under the Performance Audit of the Implementation on 73rd Constitutional Amendment in Karnataka

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Received : 12 May 2025

Accepted : 12 November 2025

## Abstract

This study critically examines the extent and effectiveness of functional devolution to Panchayati Raj Institutions (PRIs) in Karnataka as mandated under the 73rd Constitutional Amendment Act, 1992. The primary objective is to assess whether the transfer of functions, funds, and functionaries to the three-tier PRIs has translated into meaningful decentralization at the grassroots level. The article is based on a performance audit by the CAG of India in Karnataka using a document-based review and quantitative analysis of functional devolution indicators. It uniquely leveraged Voucher Level Compilation (VLC) data to trace fund flows to PRIs, supported by Budget Link Documents. Mid-term consultations with the State Government and review by the Headquarters ensured methodological rigour and transparency.

The audit revealed that while the State has made statutory provisions for functional devolution, actual implementation remains limited and fragmented. Key findings include partial and uneven transfer of functions across departments, lack of clarity in activity mapping, inadequate deployment of staff to PRIs and weak institutional mechanisms for monitoring and accountability. Instances of duplication, underutilization of funds, and centralization tendencies were also observed. The study concludes that the promise of the 73rd Amendment remains unfulfilled in practice due to systemic and administrative constraints. Strengthening institutional mechanisms, ensuring clear functional jurisdiction, and enhancing the capacity and autonomy of PRIs are essential to realize the goals of democratic decentralization.

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## Keywords

73rd Constitutional Amendment, Panchayati Raj Institutions, Functional Devolution, Performance Audit, Karnataka, Decentralization and Rural Governance.

## 5.1 Introduction

Karnataka was among the first states to institutionalize the mandate of the 73rd Constitutional Amendment Act (CAA) through the Karnataka Panchayat Raj Act, 1993, signalling a progressive stance toward grassroots democracy. On paper, the State devolved functions, funds, and functionaries to Panchayati Raj Institutions (PRIs) across three tiers. However, the real test lay not in legislative compliance but in the actual transfer of governance responsibilities from the State to local bodies — as envisaged in the Eleventh Schedule of the Constitution.

### 5.1.1 Necessity for Functional Devolution

Functional devolution is essential for strengthening service delivery and deepening democratic participation at the grassroots. The transfer of responsibilities to PRIs directly affects the efficiency and accountability of core services such as health care, water supply, and elementary education. When PRIs are empowered with clear functions, adequate funds, and trained functionaries, local governments are better positioned to respond to citizens' needs in a timely and inclusive manner. This aligns with the vision of the 73rd Constitutional Amendment as well as with Sustainable Development Goal (SDG) 16.7, which emphasizes responsive, inclusive, participatory, and representative decision-making at all levels.

Considering the significance, a performance audit conducted by the Comptroller and Auditor General (CAG) of India examined whether the devolution of the 29 functions to the PRIs had meaningfully taken place in the State of Karnataka. This article delves into the extent, authenticity, and innovation of this devolution process in Karnataka.

The field audit, designed and led by the authors, sought to go beyond formal compliance to assess the real empowerment of local governments.

### 5.1.2 Comparative Angle

Karnataka presents an important case study in this regard. Despite being one of India's most economically and administratively advanced states, significant gaps remain in the actual transfer of functions, funds, and functionaries to PRIs. These shortcomings highlight that even relatively well-governed states struggle to implement the spirit of decentralization in practice. The Karnataka experience, therefore, offers valuable insights into the broader systemic challenges of functional devolution across India, where overlapping jurisdiction, fragmented accountability, and weak institutional mechanisms continue to constrain the effectiveness of local self-governance.



## 5.2 Devolution of Functions: Unpacking the Audit Lens

While the State notified that all 29 functions under the Eleventh Schedule were “devolved,” the audit sought to verify actual implementation. The audit moved beyond checklists and declarations by innovating a Functionality Framework, built on four measurable indicators:

1. Transfer of Budgetary Allocation
2. Transfer of Functionaries
3. Operational Guidelines/Rules
4. Implementation Autonomy

In evaluating the 'Transfer of Budgetary Allocation,' the audit closely examined the financial routing mechanisms by analysing the Head of Account structure of Government Accounting System (six tier 15-digit classification). Under the Karnataka local self- government, the Rural Development and Panchayat Raj (RDPR) Department is allocated scheme-wise funds through Minor Heads 196 (Grama Panchayats), 197 (Taluk Panchayats), and 198 (Zilla Panchayats).

The rest of the transactions under minor head other than 196, 197 and 198 are carried out by the State Sector. This approach allowed for a more nuanced and institutional assessment of fiscal devolution, connecting intent with traceable financial implementation which revealed that the devolved functions are not exclusive to PRIs and largely executed by State Sectors.

This four-fold matrix was applied to all 29 functions including high-stakes sectors such as health, education, agriculture, and water supply.

### 5.2.1 Audit Model and Feedback

In a marked departure from traditional audit methodologies that rely heavily on departmental disclosures and self-reported data, this performance audit extensively leveraged the Voucher Level Compilation (VLC) data — a granular, system-generated dataset from the Government’s accounting system. By mining VLC data, audit was able to independently trace fund flows down to the scheme and PRI level, using actual expenditure entries linked to Major and Minor Heads. To complement this analysis, the Budget Link Document for the three-tier government was also examined to contextualize allocations across Grama, Taluk, and Zilla Panchayats. This combined approach not only strengthened objectivity but also enabled quantitative validation of the claimed devolution. It stands out as a classic example of applying accounting knowledge for performance auditing, where the audit team harnessed the structure and integrity of the treasury accounting system to draw systemic insights and uncover gaps that would have remained obscured under conventional audit models.



Beyond the standard Entry and Exit Conferences, a Mid-term Conference was convened with the State Government, specifically to discuss and seek feedback on the audit matrix. Further, in this case, being the beneficiary, the PRIs with all three tiers-Gram Panchayats, Taluka Panchayats and Zilla Panchayats were surveyed to establish the credibility of the audit models. This unique engagement promoted transparency and facilitated early alignment on key audit criteria. The proposed model was also reviewed in consultation with the Southern Region (SR) Wing of the CAG Office, ensuring both methodological rigour and audit integrity. Further, relevant benchmarks were drawn from sister states within India, where devolution frameworks and activity mapping practices had been comparatively better articulated.

### 5.2.2 Audit Findings: Devolution Gaps and Grey Zones

While the State government had formally declared the devolution of all 29 functions listed in the Eleventh Schedule of the Constitution to Panchayati Raj Institutions (PRIs), the audit revealed significant inconsistencies in actual implementation. These gaps highlight that true decentralization requires more than a policy notification — it demands institutional restructuring, fiscal realignment, and administrative clarity. The audit's detailed examination uncovered four major thematic concerns:

- **Partial Transfers:** More than 25 per cent of functions were not financially backed up. Further, the audit observed that most of the functions were implemented by the State Sector. Significant sectors like Agriculture, Public Health, Village Industries, Drinking water, Animal Husbandry, Social Forestry, etc, saw only symbolic transfer of functions (Figure 5.1).
- **Overlapping Jurisdiction:** In many instances, departmental (State Government) control was retained with a limited role for PRIs, leading to dual accountability and administrative confusion. For instance, while the responsibility for rural water supply was formally assigned to PRIs, the State Department continued to manage the sector, including the implementation of flagship programmes such as *Jal Jeevan Mission*. This dual control limited the functional autonomy of PRIs and reduced their accountability to local communities.
- **Lack of Institutional Autonomy:** PRIs had limited control over planning, staffing, and execution, even for functions nominally devolved to them.
- **Mismatch in Budgetary Authority:** Several schemes were routed through PRIs for implementation, but funds, functionaries and decision rights remained with the line departments.

**Figure 5.1: Devolution of Functions to PRIs vis-a-vis the State**

	PRI	State
Poverty Alleviation Programme	98	2
Education including Primary Education	88	12
Women & Child Development	81	19
Family Welfare	72	28
Welfare of the Weaker Sections	38	62
Health and Sanitization, including Hospitals	32	68
Drinking Water	30	70
Animal Husbandry, Dairying, Poultry	28	72
Social Welfare including welfare of the Roads, Culverts, Bridges, Ferries	26	74
Social Forestry & Farm Forestry	25	75
Fisheries	16	84
Cultural Activities	13	87
Village Industries	13	87
Land Reforms	13	87
Soil Conservation	12	88
Minor Irrigation	9	91
Agriculture	6	94



In essence, while Karnataka made early strides by adopting the 73rd Amendment through legislation in 1993, the audit highlights that the real empowerment of PRIs remains incomplete in the State. Without structural reforms to clarify jurisdiction, transfer decision-making power, and link finances with functional responsibilities, PRIs will continue to operate as dependent entities and as agency functions - constrained in delivering responsive and accountable governance.

### 5.3 Funds and Functionaries: The Incomplete Triangle

While the article primarily focuses on functional devolution, the audit's insights into funds and personnel are also found to be crucial:

- **Devolution of Funds:** Despite State Finance Commission recommendations, PRIs continued to receive untied grants with minimal linkage to the actual functions transferred. Budgeting was input-based, not function-based.
- **Devolution of Functionaries:** A major gap identified was the non-transfer of staff and non-delegation of appointment powers of the majority of the staff to the PRIs. In most cases, PRIs were left to implement schemes without exclusive administrative control over their personnel. They often had to depend on departmental staff posted on deputation, which diluted institutional accountability and weakened the responsiveness of local governance structures. The inability to appoint, discipline, or evaluate staff directly has significantly impaired the functional autonomy of PRIs and hindered effective service delivery. A key constraint identified in the audit was the limited institutional capacity of PRIs in the absence of staff devolution. Training efforts were irregular and generic, failing to meet sector-specific needs. To address these issues, the audit recommended creating exclusive PRI cadres, providing regular need-based training and strengthening State Institute of Rural Development (SIRD) and District Training Centres for sustained capacity-building.

### 5.4 Audit Innovation: Beyond Compliance to Outcome Orientation

The Functionality Assessment Framework represents a landmark innovation in public audit. It moved from procedural audit to performance-based assessment, gauging not just whether functions were transferred, but how well they were being performed at the local level.

For instance:

- In Agriculture, though the function was listed as devolved, PRIs had no control over extension officers, rendering the transfer ineffective.
- In Water and Sanitation, Gram Panchayats were expected to manage schemes but lacked technical staff and fund utilization rights.

This evidence-based matrix was instructed by the then CAG of India to be shared as a model with other audit institutions for replication.

## 5.5 Conclusion: Devolution as a Democratic Imperative

Three decades since the 73rd Constitutional Amendment, Karnataka's decentralization journey reflects both pioneering intent and implementation inertia. The audit revealed that devolution on paper does not equate to decentralization in practice. The symbolic transfer of subjects without matching authority, finance, and staffing only reinforces dependency rather than enabling governance.

The challenge ahead is not merely to list functions as “transferred,” but to institutionalize local self-governance through:

- Function-based budgeting,
- Exclusive administrative cadres for PRIs,
- Autonomous planning and implementation powers.

Audit's innovative framework and focus on actual outcomes provide a credible roadmap for transforming PRIs from executing arms into engines of grassroots democracy.

Audit observed that weak functional devolution has had a direct adverse impact on citizens. In many cases, devolved functions continued to be implemented by State Departments rather than PRIs, which meant that citizens, when faced with service gaps or grievances, were compelled to approach multiple line departments instead of their Gram Panchayats. This undermined the vision of PRIs as the first point of contact for local governance. For example, in the case of Direct Benefit Transfer (DBT) schemes, audit findings showed that beneficiaries often did not receive entitlements due to fragmented responsibilities spread across different departments. With PRIs lacking both authority and accountability, citizens had no choice but to navigate department-specific procedures, weakening accessibility, delaying redressal, and preventing Gram Panchayats from emerging as a single-window contact for rural service delivery.

## 5.6 Recommendations

Audit proposed a set of short and medium-term reforms to strengthen functional devolution and empower PRIs. In the short term, activity mapping should be updated periodically, and minor heads of expenditure—such as those already devolved in the case of libraries, where technical expertise is not required—may be transferred to Gram Panchayats to expand their functional autonomy. Fund-tracking dashboards can be introduced to enhance transparency and accountability. In the medium to long term, reforms should include the creation of an exclusive PRI cadre, as well as systematic capacity-building to equip PRIs with technical expertise in areas such as engineering, finance, and service delivery. This phased approach would ensure that PRIs progressively evolve into robust, self-sufficient institutions of local governance. It also called for enhanced fiscal and operational autonomy for local bodies and the institutionalization of transparency mechanisms such as social audits and public disclosures to ensure accountable and effective grassroots governance by making Gram Panchayats the front mechanism to interact with the rural citizen.

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## Data Availability

There are no new data associated with this article.

## Ethics Statement

All necessary ethical and research integrity principles have been duly adhered to.

## Funding

No external funding has been availed.

## Conflict of Interest

There is no conflict of interest.

## Acknowledgments

Not stated.

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